



OFFICE OF THE  
**ARIZONA STATE TREASURER**  
**KIMBERLY YEE**  
TREASURER



Via Email and Postal Service

August 18, 2022

Kunal Kapoor, Chief Executive Officer  
Morningstar Inc.  
22 West Washington Street  
Chicago, IL 60602  
United States  
[REDACTED]

Dear Sir,

In accordance with the passing of Arizona House Bill 2617 in 2016, the State of Arizona has set into law that a public entity or public fund may not enter a contract or directly invest moneys with a person or company that is engaged in boycotting Israel. The extent of actions considered to be a boycott are defined in law under Arizona Revised Statutes (A.R.S.) § 35-393:

1. "Boycott" means engaging in a refusal to deal, terminating business activities or performing other actions that are intended to limit commercial relations with entities doing business in Israel or in territories controlled by Israel, if those actions are taken either:

(a) Based in part on the fact that the entity does business in Israel or in territories controlled by Israel.

(b) In a manner that discriminates on the basis of nationality, national origin or religion and that is not based on a valid business reason.

Under A.R.S. § 35-393.02, Arizona law also requires the State of Arizona Treasurer's Office to compile a list of restricted companies that are boycotting Israel and may consider publicly available information in preparing the list.

Based on these statutes and the information that we have received, your company has been identified as actively boycotting the State of Israel and will be placed on our list of prohibited investments unless you provide us within thirty (30) days of this letter a written certification explaining how your use of ESG guidelines when it comes to

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companies doing business in Israel does not violate Arizona law and a written averment that you will not engage in any future boycott activities. *See* A.R.S. § 35-393.02(D).

In support of the Treasurer Office's finding, we determined that Morningstar's environmental, social, and corporate governance (ESG) focused subsidiary, Sustainalytics, uses anti-Israel and antisemitic sources to negatively impact the scores of companies doing business in Israel and Israeli-controlled territories. A careful reading of the 117-page report from law firm White & Case, commissioned by Morningstar reveals this to be true, especially on pages 69-73 and 86-93 and 97-99.

ESG, in itself, is a subjective exercise and suffers from inherent bias. While the White Case report says there was no bias against Israel, that is not the question presented to us under Arizona law. The very fact that Sustainalytics has chosen to review companies doing business in Israel under the guise of its ESG ratings system, violates Arizona law as your company is "performing actions that are intended to limit commercial relations with entities doing business in Israel." To be found not in violation of Arizona's anti-BDS law, Morningstar would need to potentially cease issuing or revise the process for preparing reports and research under the guise of ESG as it relates to companies doing business in Israel.

Please feel free to contact our office if you have any questions or concerns.

Sincerely,

A handwritten signature in black ink, appearing to read 'Kimberly Yee', with a stylized, flowing script.

Kimberly Yee  
Arizona State Treasurer